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MULTILATERAL INVESTMENT FUND

CHILE

**PROGRAM TO STRENGTHEN REGULATION AND OVERSIGHT OF
COOPERATIVES IN CHILE**

(TC-02-05-03-7-CH)

DONORS MEMORANDUM

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INFORMATION AVAILABLE IN THE RE1/DIV TECHNICAL FILES

Preparation:

Regulatory Framework for Credit Unions in Chile

Execution:

Operating Regulations

Terms of reference

ABBREVIATIONS

CESI	Committee on Environment and Social Impact
COF/CCH	The Bank's Country Office in Chile
CORFO	Corporación de Fomento (Chilean Economic Development Agency)
CTNR	Cooperación Técnica no Reembolsable (nonreimbursable technical-cooperation funding)
CU	Credit Union
DECOOP	Departamento de Cooperativas (Cooperatives Department)
EA	Executing agency
FECRECOOP	Federación Chilena de Cooperativas de Ahorro y Crédito (Chilean Federation of Credit Unions)
FOGAPE	Fondo de Garantía para Pequeños Empresarios (Loan guarantee fund for small entrepreneurs, administered by BancoEstado)
HW	Hardware
IDB	Inter-American Development Bank
ILO	International Labour Organization
INDAP	Instituto de Desarrollo Agropecuario (Agricultural Development Institute)
INE	Instituto Nacional de Estadística (National Statistics Institute)
KfW	Kreditanstalt für Wiederaufbau (German agency for international development)
LF	Logical framework
MIF	Multilateral Investment Fund
MSMEs	Micro, small, and medium-sized enterprises
PEU	Project Executing Unit
PT	Project Team
SBIF	Superintendencia de Bancos e Instituciones Financieras (Superintendency of Banks and Financial Institutions)
SERCOTEC	Servicio de Cooperación Técnica (Technical Cooperation Service)
SME	Small and medium-sized enterprise
SW	Software
UF	Unidades de Fomento (Development Units)
WB	World Bank

PROGRAM TO STRENGTHEN REGULATION AND OVERSIGHT OF COOPERATIVES IN CHILE

(TC-02-05-03-7-CH)

I. EXECUTIVE SUMMARY

Requester:	Department of Cooperatives (DECOOP), Ministry of the Economy, Development, and Reconstruction		
Executing agency:	Department of Cooperatives (DECOOP), Ministry of the Economy, Development, and Reconstruction		
Beneficiaries:	The end-beneficiaries of the program will be the financial system as a whole, credit unions (financial cooperatives), their customers, and Chile in general, because the program is designed to: (i) strengthen the management capacity of cooperatives; (ii) generate reliable statistics for regulatory and economic policy decision-making; (iii) deliver financial services for low-income groups, microentrepreneurs, and rural entrepreneurs through properly constituted nonbank financial institutions; and (iv) establish general government oversight capacity through DECOOP. The program will also specifically strengthen supervision of Chile’s growing cooperative sector.		
Amount and source:	Modality:	Nonreimbursable	
	MIF Window I:	US\$	US\$1,136,000 (39%)
	Local counterpart:	US\$	<u>US\$1,759,000 (61%)</u>
	Total:	US\$	US\$2,895,000 (100%)
Objective:	The program objective is to enhance the competitiveness, transparency, integrity, and soundness of Chilean cooperatives as an alternative means of promoting the social and economic development of the country.		
Execution period:	Execution period:	36 months	
	Disbursement period:	42 months	
Special contractual clauses:	A condition precedent to the first disbursement is presentation by DECOOP of an annual work plan for the first year of the program, broken down by component.		
Exceptions to Bank policy:	None.		

Environmental and social review:	CESI reviewed the abstract for this operation at its meeting of 26 September 2003 (CESI 35-03). The recommendations have been included.
Coordination with other agencies:	Superintendency of Banks and National Statistics Institute (INE).

II. BACKGROUND AND RATIONALE

A. Background

- 2.1 In the 1950s and 1960s, the driving force behind cooperatives in Chile was the State, which created special programs and instruments for financial support, technical assistance, and training. In the mid-1960s, support programs for the sector died out and no changes were made in the regulations governing cooperatives. That trend was reversed as of 1990. Some cooperatives survived and adapted to changing circumstances, including: (i) credit unions, which not only did not disappear during the major banking crisis of the 1980s but, in some cases, actually grew and posted profits; and (ii) open housing cooperatives, which, in the 1990s, built 20% of all low-cost housing in Chile (200,000 units).
- 2.2 Today, the cooperative sector consists of 2,186 cooperatives. Of these, 912 regularly report their financial position and accounting data to the Cooperatives Department (DECOOP) of the Ministry of the Economy, Development, and Reconstruction.¹ Approximately 60% of the 1,093,990 members of currently active cooperatives belong to Credit Unions (CUs). Of the active cooperatives, 190 qualify as “economically significant.”² In the past three years, 82 new cooperatives have been established and 50 more are in the process of being established.
- 2.3 The cooperative sector—especially CUs and open housing cooperatives—is experiencing problems stemming from inefficiency, poor management, and a lack of prudential regulation. CUs, for instance: (i) are not governed by a systematized, complete set of laws regulating their activities as financial intermediaries; (ii) are not subject to specialized supervision; (iii) have no access to information

¹ With the exception of two credit unions (CUs) with a net worth of over 400,000 development units, which are overseen by the Superintendency of Banks (SBIF).

² According to the new law, “economically significant” cooperatives are credit unions, open housing cooperatives, and any other cooperative organizations with assets equal to or greater than 50,000 development units (US\$1.2 million) or over 500 members. They represent 90% of total cooperative assets and a similar percentage of total cooperative membership. Because of their size, the new Cooperative Act calls for more rigorous regulations and special oversight measures (supervision and inspection) for them.

clearinghouses; and (iv) are not monitored for possible money-laundering activities. As for open housing cooperatives, it should be noted that the largest (with 13,000 members)—Cooperativa de Financiamiento, Construcción y Servicios Habitacionales, Habitacoop Ltda—is currently subject to an agreement with creditors aimed at preventing bankruptcy, after having lost the savings of thousands of depositors.

- 2.4 There are two main reasons for this situation. From a public sector perspective, the institutional framework is deficient and characterized by: (i) an obsolete regulatory framework that makes it difficult for cooperatives to compete in a market economy (Law of 1963 and partially repealed Regulations of 1936); (ii) inappropriate oversight mechanisms; (iii) an oversight body with inadequate human, technical, and material resources; (iv) an incomplete statistical information system; and (v) lack of familiarity with the legal provisions governing cooperatives on the part of government officials working with the sector. From a private sector perspective, there are problems associated with lack of professional training for cooperative leaders and managers.
- 2.5 The public sector decided to address these issues by: (a) submitting to Parliament, in the early 1990s, a Draft Amendment to the General Law on Cooperatives, leading to a reform that was implemented in May 2003; and (b) fostering economic growth through policies designed to reactivate and strengthen small and medium-sized enterprises.³ As a result: (i) the Chilean Economic Development Agency (CORFO) and the Agricultural Development Institute (INDAP) decided to channel funds to CUs, provided that they, in turn, invest those funds in micro enterprises and small businesses (MSMEs); (ii) the Guarantee Fund for Small Enterprise, administered by Banco del Estado (FOGAPE) allows CUs to operate with this fund provided that they are certified by DECOOP. These two decisions require DECOOP to be in a position ensure reliable audits, supervision, and ratings of CUs.
- 2.6 In the private sector, the trend over the past few years has been for cooperatives to join federations and sector associations, which are institutionally very weak. The most prominent are the federations of credit unions and housing, electricity, dairy, and pisco producer cooperatives. To overcome their weaknesses, the credit unions belonging to the Chilean Federation of Credit Unions (FECRECOOP) requested MIF funding for a program to strengthen credit unions (TC-01-08-00-0-CH), in order to help FECRECOOP members meet the requirements under the Cooperative Act. However, this project was cancelled due to disagreements between FECRECOOP management and some of its member cooperatives.
- 2.7 In light of the above, the current government is requesting Bank support in the form of a MIF project, once it has: (i) restructured the oversight body for the cooperative

³ The INE has determined that 97% of all Chilean enterprises are MSMEs, which altogether account for 80% of employment.

sector and increased its budget; (ii) provided in the new Law for a system of fees to be charged to the industry; and (iii) committed to gradually strengthening and sustaining DECOOP.

B. Rationale

- 2.8 The Project Team (PT) considers that: (i) the project is consistent with MIF priorities, inasmuch as it will help strengthen financial systems; (ii) the project applies a lesson learned from previous experience that improving regulatory and oversight mechanisms tends to strengthen the supervised institutions, lower the cost of financial intermediation thanks to greater efficiency, and reduce risks for the financial intermediaries and their customers; (iii) given the quality of the new Cooperative Act, the Bank should support it; and (iv) project additionality will be twofold, as it will address both the fact that: (a) supervision of CUs as financial intermediaries is usually neglected by regulators, because it involves covering a large number of smaller institutions, given their relatively low volume of assets or deposits; and (b) public sector activities should be promoted, focusing government attention on budgeting concerns

III. PROGRAM DESCRIPTION

A. Objectives

- 3.1 The general objective of the project is to help enhance the competitiveness, transparency, integrity, and soundness of the Chilean cooperative sector as a means of promoting the social and economic development of the country.⁴ Its specific objective is to improve the regulatory framework for cooperatives and develop an effective oversight mechanism for the sector.

B. Components

1. Component I. Changes in the regulatory and legal framework (MIF: US\$158,080; and counterpart: US\$15,000)

- 3.2 The objectives of this component are to: (i) review, implement, and disseminate a new general regulatory framework for the cooperative sector and a specific framework for each type of cooperative, in terms of both legal content and other factors that will govern the activities and operations of each category of cooperative, whereby the review will cover legal and technical facets of the existing regulatory framework with a view to correcting inconsistencies and closing loopholes; and (ii) train DECOOP staff.

⁴ Current DECOOP indicators will be used as the baseline data for ex post evaluation of the project, to be carried out by DECOOP.

- 3.3 The activities called for under this component are as follows (see Operating Regulations for further details): (a) hire consulting services with constitutional and administrative expertise, and familiarity with the Chilean cooperative sector to review and improve the regulatory (legislative and technical) framework currently being prepared, that is: (i) one consultant to conduct the essentially legal (constitutional and administrative) review and provide legal expertise and (ii) another to assist DECOOP with the legal aspects of its activities and coordinate the work of the legal and technical consultants; and (b) hire a consultant to review and adapt the technical aspects of current regulations, especially in relation to the activity, management, and operations of cooperatives, by branch of activity. This consultant must examine best practices in government, financial discipline, risk management, and standardized accounting instruments capable of generating reports by sector and propose their inclusion in the mandate of the consultant to review the legal framework.
- 3.4 The outcome of the project is expected to be stronger regulation covering such areas as rules on monitoring corporate governance risk factors and the activities that different kinds of cooperatives will be able to pursue in line with certain features and powers of DECOOP to: (i) authorize the establishment of credit unions; (ii) set standards and reject applications from cooperatives that do not meet them; (iii) establish criteria for auditing major investments by a cooperative; (iv) require periodic publication of the cooperatives' financial statements and principal indicators; and (v) adopt measures for bailouts and even closing of any cooperative failing to comply with the law or prudential standards, thereby jeopardizing public trust in the sector.

2. Component II. Establishment of an effective monitoring and oversight system (MIF: US\$305,500; and counterpart: US\$508,000)

- 3.5 The objectives pursued by this component are to: (i) evaluate the sector's current oversight system, carry out a diagnostic assessment of supervision needs, and design a monitoring model (along with requisite supervision and audit procedures) that meets the requirements of a regulatory framework covering both on-site and off-site supervision; (ii) define the scope, objectives, duties, and (on-site and off-site) functions of assistant supervisors; (iii) implement an information clearinghouse system using criteria and a methodology similar to those of the SBIF and cross-checking data with the SBIF's, where possible, to enable the cooperatives to be aware of their potential or current debtors' financial status and support the on-site and off-site audits of DECOOP and the assistant supervisor; (iv) introduce a remote monitoring system to enable DECOOP or assistant supervisors keep track of the position and performance (trends) of the cooperatives; and (v) train DECOOP staff.
- 3.6 Local and international consultants will be hired with expertise in, among other areas, regulation, supervision, management, and auditing of cooperatives, to:

(i) design the oversight and monitoring model (encompassing the above-described objectives (i) and (ii)); (ii) create and launch the software and hardware needed for an information clearinghouse; and (iii) design and launch a remote monitoring system to collect the required data from all the cooperatives, in such a way that the outputs from the system (risk-related information and indicators) can be used for off- and on-site supervision or by assistant supervisors.

- 3.7 In terms of system monitoring and supervision, this component will provide DECOOP with operational procedures and tools to verify whether cooperatives, associations of cooperatives (federations and confederations), auditors, and assistant supervisors are in compliance with the applicable regulations and are maintaining reliable systems for governance, risk management, and financial reporting.

3. Component III. Creation of a statistics and data dissemination system (MIF: US\$80,000; and counterpart: US\$200,000)

- 3.8 The objective of this component is to ensure that cooperatives produce reliable and timely statistical information that provides enough information on sector makeup for decision-making on economic policy and effective regulation and supervision more in line with sector features.
- 3.9 To this end, a statistical information system will have to be designed, with its own database and data collection methodology, and, the system implemented jointly by DECOOP and the INE.⁵ Specifically, it will be necessary to: (i) compile the data; (ii) prepare and deliver the software and the manuals containing instructions on how to operate the database; and (iii) train DECOOP staff in system operation and use. Where relevant, environmental data will be included in cooperative sector statistics.
- 3.10 Once this component is completed, DECOOP will be in a position to post the results of the data collected and processed on its website. This information can then be used for decision-making by interested third parties, be they public or private institutions or the general public.

4. Component IV. Training and dissemination (MIF: US\$320,000; and counterpart: US\$90,000)

- 3.11 The objective of this component is to encourage and coordinate efforts by the government, universities, and private sector (local and international cooperative sector) to enhance the competitiveness of cooperatives and expand their relative importance in the economy. To that end, specialists will be hired to help DECOOP train staff (through the appropriate unit) and to support the creation and use of

⁵ Based on the agreement they signed.

instruments and programs designed to improve business management and corporate governance in cooperatives and disseminate the supervision model.

- 3.12 Funding will be provided for the following training activities: (i) training imparted directly by DECOOP to cooperatives and government agencies interested in or with links to the cooperative sector, through seminars, courses, and workshops, with the training for cooperatives addressing environmental issues, especially in the case of cooperatives whose members produce tradable goods; (ii) promotion, in universities and other educational institutes, of new programs created specifically to improve management and governance in the cooperatives and the skills of assistant supervisors; (iii) promotion, through competition, of handbooks (or guides) and other teaching materials for instructors in cooperative management and governance courses, as well as online or distance education training programs; (iv) adaptation of DECOOP's website to include the material needed for the online training courses, among other information; and (v) international internships for DECOOP staff, to familiarize them with other supervision systems.

5. Component V. Structuring and strengthening of DECOOP (MIF: US\$165,000; and counterpart: US\$908,500)

- 3.13 The objective of this component is to strengthen and modernize DECOOP to enable it to meet the requirements under the new Cooperative Act and implement the supervision system that is designed and approved. In practice, this amounts to "recreating" the oversight body to enable it, virtually as a "Superintendency of Cooperatives," to effectively assume responsibility for the tasks imposed by the supervision model under the new law, making use of the data and any appropriate developments in the financial sector's supervisory and regulatory system.
- 3.14 Funding will be provided for technical assistance to support DECOOP activities to (i) establish the new organizational structure (including job profiles and staff recruitment) it needs to fulfill its mission and strategic goals and to implement the supervision system; (ii) bring on board the new professional or technical staff identified as a result of the consulting services referred to under subparagraph (i) above; (iii) conduct a diagnostic assessment of the current position with regard to technology (hardware, software, communications) and based on the new supervision system, identify and implement, on a turnkey project basis, the new technological architecture required; (iv) select premises and design the office plan needed for its work; and (v) lease and adapt office space and purchase the office equipment needed. Additional independent consulting services will also be hired to monitor implementation and completion of the activities described under the program components. The consultant will submit a progress report with observations and recommendations on each advisory task it performs and on compliance with the observations and recommendations made in previous monitoring assignments.

IV. COSTS AND FINANCING

A. Cost

- 4.1 The cost of the project is US\$2,895,000. The MIF will contribute US\$1,136,000 (39%) and DECOOP, US\$1,759,000 (61%), including US\$1,108,500 in cash.

Table IV.1: Budget (in US\$)				
	MIF	Counterpart	Total	%
Modernization of the regulatory framework	158,080	15,000	173,080	6%
Monitoring and supervision system	305,500	508,000	813,500	28%
Statistics and information system	80,000	200,000	280,000	10%
Training and dissemination	320,000	90,000	410,000	14%
Strengthening of DECOOP	165,000	908,500	1,073,500	37%
Project coordination and administration	30,000	37,500	67,500	2%
Contingencies	47,420	0	47,420	2%
Evaluations	30,000		30,000	1%
TOTAL	1,136,000	1,759,000	2,895,000	100%

- 4.2 The cost of the program includes resources to cover project coordination and administration in the amount of US\$67,500 (of which the MIF portion is US\$30,000), contingencies of US\$47,420, and audits and evaluations totaling US\$30,000, all of which are to be charged to the MIF.
- 4.3 According to Chilean legislation, the resources provided by the IDB/MIF are subject to a mandatory annual audit by the Comptroller General's Office. Consequently, no resources have been earmarked for program auditing.

B. Program sustainability

- 4.4 Program sustainability is guaranteed both economically (maintenance of the different components is covered by DECOOP's regular budget) and operationally because: (i) the regulatory changes and new supervision requirements will force the institutions concerned to meet the standards set by DECOOP and (ii) other government institutions and the major federations of cooperatives in Chile have expressed interest in compliance with the new regulations. The sustainability of DECOOP itself, after it receives support from the MIF, will be ensured by the government commitment stipulated in a letter from the Minister of Economy.⁶

⁶ Letter dated 19 December 2002.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency, management, and disbursement

- 5.1 The executing agency (EA) of the program will be DECOOP itself, which is a department in the Ministry of the Economy, Development, and Reconstruction. Chapter IV of the new Cooperative Act establishes the rules governing the department and states that its functions include: (i) promoting the development of the cooperative sector; (ii) issuing rules and regulations that will help improve the performance of cooperatives; (iii) keeping a record of currently operating cooperatives; (iv) supervising and overseeing cooperatives; (v) drawing up statistics and disseminating information on the sector; and (vi) monitoring the corporate, administrative, accounting, and financial operation of “economically significant” cooperatives.
- 5.2 DECOOP currently has 18 staff members and the following organizational structure: (i) Office of the Manager; (ii) Advisors’ office; (iii) Legal Unit; (iv) Financial and Accounting Unit; (v) Secretariat; (vi) Registry; (vii) Standardization unit; and (viii) Records. The Manager of DECOOP will establish a project executing unit (PEU) and will himself act as project leader and coordinator. The other members of the PEU will be the DECOOP Economist Advisor, an accountant-auditor, and a specialist in business administration.
- 5.3 The program execution period will be 36 months, and the disbursement period 42 months. Both the program resources and the local counterpart funding will be deposited in a special account of the Office of the Undersecretary of Economy, Development, and Reconstruction in a local bank, for use by DECOOP. A revolving fund will be established and maintained at 10% of the total MIF contribution to ensure an adequate cash flow, as provided for in Bank procedures.
- 5.4 **Procurement.** DECOOP will procure the goods and services, and hire the consultants, needed for project execution in accordance with the applicable Bank and MIF procedures and policies.

B. Status of project preparation

- 5.5 The program design, budget, and activities have been prepared with support from Bank staff, in a process that involved bringing together participants in the program and experts in some of the areas concerned and the DECOOP team. DECOOP has also already been working on the review of the **Cooperative Act** and has prepared detailed terms of reference for supporting consulting services.

VI. MONITORING AND EVALUATION

A. Monitoring

- 6.1 Independently of Bank monitoring, DECOOP will also be responsible for compiling and analyzing the data necessary to keep track of the principal indicators established in the logical framework (LF) and program benchmarks on an ongoing basis. To that end, it will submit semiannual progress reports on the program to the Bank.
- 6.2 The progress reports must explain the status of program execution as a whole and, among other things, qualitative and quantitative compliance with the program objectives, progress in the activities set forth in the logical framework and in achieving the benchmarks, financial performance, and the status of procurement of goods and the hiring of individual consultants and consulting firms. The reports, which will follow a format previously agreed upon with the Bank, will be delivered to the Bank for its information and approval within 30 days after the end of the respective six-month period. In addition, the executing agency will submit a final report within 60 days after the last disbursement, indicating the extent to which objectives were met and the sustainability achieved. The Bank's Country Office in Chile (COF/CCH) will use those reports to monitor the program and prepare a Compliance Report within three months after the last disbursement. Once the project has been completed, the Country Office will be responsible for presenting a Project Completion Report to the MIF within 90 days, addressing outcomes and achievements.

B. Evaluations

- 6.3 Once 50% of the Bank contribution has been disbursed or after 24 months of execution, the Bank will use project resources to hire the services of an independent consultant to carry out a mid-term evaluation of the results achieved under the operation. This evaluation will measure progress with respect to the performance indicators set forth in the logical framework. Where necessary, the consultant will recommend adjustments in program design or the goals established. Once 90% of the contribution has been disbursed, a final evaluation will be carried out by an independent consultant to gauge, in light of the logical framework indicators, the impact and sustainability of the program-supported activities with respect to: (i) participants and beneficiaries; (ii) the regulatory framework and operational developments associated with the program; (iii) improvement in the mechanisms for supervision by DECOOP; (iv) installation and utilization of a statistical and information system for the cooperative sector; and (v) training and improvements in management quality and risk control by cooperatives. DECOOP and the Bank will use management indicators to evaluate effective execution of the project.

- 6.4 In addition to the above, as part of the program the Bank and DECOOP will jointly select an independent consultant in quality control to monitor effective compliance with the goals and budgets established, throughout the program execution period, and report his or her findings to the Bank.

VII. RATIONALE AND RISKS

A. Program benefits and risks

- 7.1 **Benefits.** The project will help improve the cooperative sector, by fostering soundness, growth, competitiveness, transparency, and integrity, and contributing to financial system deepening by expanding financial services to low-income segments of the population and rural areas through cooperatives. It will do this by: (i) establishing standards and mechanisms that strengthen and modernize oversight, introduce preventive measures, and train the human resources needed to manage and effectively control the risks associated with cooperative activities; (ii) laying the foundations for improved oversight and regulation of cooperative operations, in direct support of low-income users, microentrepreneurs, and rural entrepreneurs, who will gain greater access to stable, properly regulated and supervised financial services; and (iii) increasing DECOOP's overall (technical and human) oversight capacity. Thus, the project will contribute to Chile's social and economic development, because of the influence that cooperatives exert in the communities with which they work. Furthermore, the beneficiaries and actions envisaged in the project are consistent with the guidelines for supporting microenterprise through mechanisms to regulate and supervise the financial institutions that provide services to them (document MIF/GN-58).
- 7.2 **Risks.** The principal program risks are that: (i) the approvals called for under component 1 may be delayed; (ii) government agencies other than DECOOP may fail to allocate the human and technical resources needed for the project; and (iii) the cooperatives may fail to grasp the benefits of the project and do not attend the training courses offered. These risks will be mitigated, respectively, by: (a) the government's commitment to strengthening DECOOP, as reflected in its budgetary allocations; (b) the agreements signed with the SBIF and INE; and (c) the executing agency's nature as a supervisory body for the sector.

B. Beneficiaries

- 7.3 There are two groups of end-beneficiaries: on the one hand, the cooperatives' customers and members, most of whom are low-income individuals and owners of MSMEs (above all credit union customers); and, on the other hand, the cooperative system as a whole (public trust in it would increase) and the Chilean productive system. All the individual institutions within the sector will also benefit from the higher level of public trust stemming from the improvement in: (i) their regulatory

and oversight framework, which will help enhance the sustainability and stability of their operations; and (ii) their training and professionalism.

VIII. ENVIRONMENTAL AND SOCIAL CONSIDERATIONS

- 8.1 The proposed operation will have no direct social or environmental impact. It incorporates the recommendations of the Committee on Environment and Social Impact (CESI) that it: (i) include environmental issues in the management training, especially in cooperatives whose members produce tradable goods, with a view to fostering a culture of compliance with cooperative standards that have been aligned with environmental and social rules and regulations (see subparagraph 3.12(i)); and (ii) where possible, include environmental factors in cooperative sector statistics (INE-DECOOP Agreement) (see paragraph 3.9).

PROGRAM TO STRENGTHEN REGULATION AND OVERSIGHT OF COOPERATIVES IN CHILE

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL			
To enhance the competitiveness, transparency, integrity, and soundness of the cooperative sector in Chile as a means of promoting the social and economic development of the country.	At least 75 of the 190 economically significant cooperatives improve their performance, according to current DECOOP indicators (see Donors Memorandum, paragraph 3.1).	Ex post evaluation conducted by DECOOP	There are no major shifts in the macroeconomic scenario and the Chilean financial sector remains sound and stable.
PURPOSE			
Revised regulations governing cooperatives and an effective oversight system for the sector.	<p>By month 36 of project execution:</p> <ol style="list-style-type: none"> 500 cooperatives supervised under the new, technically and legally improved regulatory framework. A system for information and statistical data reporting established and operational. 	<ul style="list-style-type: none"> DECOOP database and statistics. Cooperatives' financial reports and statements. Progress reports on the program. Mid-term and final report on the program. 	<ul style="list-style-type: none"> The government and legislature at least maintain the regulatory and supervisory powers of the current body overseeing cooperatives. The government maintains DECOOP's current operating budget appropriation.
COMPONENTS			
Component I: Changes in the regulatory and legal framework	<p>Nine months after signature of the agreement:</p> <ol style="list-style-type: none"> The legal framework for the cooperative sector has been revised and implemented, with an appropriate proposal for tying it in with the local legal framework. The Regulations governing DECOOP supervision and operation and management of cooperatives has been revised and implemented. <p>Thirty-six months after signature of the agreement:</p>	<p>Progress reports:</p> <ul style="list-style-type: none"> Accounting records and project monitoring statistics. Documents containing proposed new regulations. Documents substantiating the proposed legal and technical amendments. Comprehensive set of final regulations. Paper describing the action strategy and implementation plan. 	<ul style="list-style-type: none"> The respective government bodies duly approve the proposed amendments to the regulations. During execution of the component, neither the government nor the legislature issue or pass any legislative changes that would hamper or modify the scope of the component.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	1. 20 DECOOP staff members have been trained in legal issues and 20 in technical aspects of the new rules and regulations.	<ul style="list-style-type: none"> Records of attendance at training courses and materials distributed to participants. 	
Component II: Monitoring and oversight systems	<p>Eighteen months after signature of the agreement, DECOOP will have:</p> <ol style="list-style-type: none"> an oversight model designed and implemented, to address the needs of the cooperative sector, complete with the respective manuals (for on-site, off-site, and auxiliary inspections); an information clearinghouse system in place, with standards comparable to those of the SBIF, together with an operating manual; an appropriate remote monitoring system in operation, with the necessary software and operating manual; and 15 DECOOP employees trained in the oversight model, and in operation and use of the information clearinghouse and remote monitoring systems. 	<p>Progress reports:</p> <ul style="list-style-type: none"> Consultant's reports and manuals The clearinghouse's reports and operating manuals follow the design specifications. The remote monitoring system's reports and operating manuals follow design specifications. Reports on the technological and communication requirements for operation of the information clearinghouse and remote monitoring systems. Records of attendance at training courses and materials distributed to participants. 	<ul style="list-style-type: none"> The institutions operating the remote monitoring systems in the cooperative sector (in Chile or abroad) allocate the human and technical resources needed for knowledge and subsequent design of the system for the oversight organ. During execution of the component, the government or legislature maintain the scope and authority of DECOOP.
Component III: Statistics and information system	<p>Eighteen months after signature of the agreement, DECOOP will have:</p> <ul style="list-style-type: none"> the design of the information system; the specialized database; and the methodology for data collection. <p>Twenty-four months after signature of the agreement, DECOOP will have a historical database.</p> <p>Thirty-six months after signature of the agreement, DECOOP will have a complete, operational statistics system, with information posted on its website.</p>	<p>Progress reports:</p> <ul style="list-style-type: none"> Consultants' reports functional design of the information systems historical database and design of the future methodology for data collection software for managing the historical database operating manuals for the information system and database website 	<ul style="list-style-type: none"> INE supports DECOOP as stipulated in the cooperation agreement. Surveyed institutions or individuals cooperate by providing the reliable and timely information required.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Component IV: Training and dissemination	<p>Thirty-six months after signature of the agreement, DECOOP will have provided training on and disseminated:</p> <ol style="list-style-type: none"> 1. regulation, the oversight model, and management techniques to 80 CUs and government agencies; 2. regulation, the oversight model, and management techniques to five new cooperatives; 3. regulation and the oversight model in 13 cooperative and government agency sectors (by economic activity). <p>Twenty months after signature of the agreement, DECOOP will have organized 14 competitions and selected the winners.</p> <p>Twenty-four after signature of the agreement, DECOOP will have completed online and distance learning courses and posted them online. It will also have manuals ready for trainers and educators on cooperative issues.</p> <p>Thirty-six months after signature of the agreement, DECOOP will have completed three internships in two countries.</p>	<p>Progress reports:</p> <ul style="list-style-type: none"> • Training materials • Records of attendance at training courses and materials distributed to participants. • Record of online and distance courses. • Final reports by staff on their internship experiences and the views of the host agencies. 	<ul style="list-style-type: none"> • Cooperatives, government agencies, institutes, and universities are interested in education and training in project-related cooperative issues. • Trained personnel stay with their respective institutions, supporting the strengthening of the cooperative sector.
Component V: Strengthening of DECOOP	<p>Twenty-four months after signature of the agreement, DECOOP will have:</p> <ol style="list-style-type: none"> 1. 10 new employees hired under the new organizational structure, with the profiles needed for their respective units or activities; and 2. a diagnostic assessment of information technology needs, a proposal regarding technological requirements, and the design for a new operating structure. 	<p>Progress reports:</p> <ul style="list-style-type: none"> • The report outlining the proposed organizational structure for DECOOP • The contracts with the new professional staff • The invoices and contracts for procurement and installation of the technological resources • Consultant reports on compliance with 	<ul style="list-style-type: none"> • DECOOP continues to receive budgetary support from the government. • Trained DECOOP staff stay in the department.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>Thirty months after signature of the agreement, DECOOP will be installed in its new premises.</p> <p>Thirty-six months after signature of the agreement, DECOOP's computer center will be installed and operational.</p>	<p>project implementation plans</p> <ul style="list-style-type: none"> The report containing the proposal on DECOOP's physical location and procurement The rental contract for the offices and invoices for the furniture and other office equipment purchased. 	
ACTIVITIES			
<p>Component I: Changes in the regulatory and legal framework</p> <ul style="list-style-type: none"> Activity 1: Hire legal consultants to: (i) review the legal framework for cooperatives and bring it into line with the general legal framework; (ii) provide ongoing support on legal issues in DECOOP's work; and (iii) train DECOOP personnel. Activity 2: Hire specialized consulting services to support the design and adaptation of regulations governing operational and management functions and to train DECOOP personnel. 	<p>Activity 1:</p> <p>Nine months after signature of the agreement, the legal and regulatory reforms have been reviewed and proposed.</p> <ul style="list-style-type: none"> 1.A.- Consulting services to examine the legal framework governing cooperatives, adapt it to the general legal framework, and train DECOOP personnel: 120 days (US\$69,000) 1.B- One legal/specialized consultant to provide ongoing legal and technical support on legal issues in DECOOP's work: 510 days (US\$58,080) <p>Activity 2:</p> <p>Consultants specializing in the design and adaptation of operational and management-related regulations and in specialized training for DECOOP personnel: 240 days (US\$46,000)</p>	<ul style="list-style-type: none"> Consultant progress reports Report describing alternatives for amending current regulations Training plan that includes methodology, issues, and resource materials 	<ul style="list-style-type: none"> Appropriately qualified consultants prepared to accept the terms of reference are found.
<p>Component II: Monitoring and oversight systems</p> <ul style="list-style-type: none"> Activity 1: Hire consultants to design the oversight model, write the manuals for it, and train personnel. Activity 2: Hire consulting services to 	<p>Activity 1:</p> <p>Eighteen months after signature of the agreement, a monitoring and oversight system for cooperatives will have been designed, along with an information clearinghouse and a remote monitoring system, both of which will</p>	<ul style="list-style-type: none"> Progress reports of the consulting firms Training plan that includes methodology, issues, and resource materials. 	<ul style="list-style-type: none"> Consultants with the required qualifications are found and ready to accept the terms of reference.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>establish and implement an information clearinghouse and train personnel.</p> <ul style="list-style-type: none"> • Activity 3: Hire consulting services to create or adapt, as appropriate, and implement a remote monitoring system, and to train personnel. 	<p>be operational.</p> <ul style="list-style-type: none"> • 1A- One local or international consultant to conduct a diagnostic assessment of the oversight model and the cooperative sector: 45 days (US\$13,500). • 1B- One international consultant for the overall design of the oversight model and for coordinating specific applications: 105 days (US\$52,000). • 1C- One local or international consultant to design off-site supervision, prepare manuals, and train personnel: 46 consultant-days (US\$21,000). • 1D- One local or international consultant to design on-site supervision, produce manuals, and train personnel: 46 consultant-days (US\$21,000). • 1E- One local or international consultant to design supporting supervision, write manuals, and train personnel: 31 consultant-days (US\$14,000). <p>Activity 2: International or local consultants to design and install the information clearinghouse, including preparation of software, manuals, and training of personnel: +</p>		<ul style="list-style-type: none"> • The SBIF cooperates with DECOOP and passes on to it the “know how” needed to set up the credit rating system. • FECRECOOP donates the corresponding software that will then be adapted.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<ul style="list-style-type: none"> 90 consultant-days (US\$156,000) 267 days of work and technical resources provided by the SBIF (US\$250,000 in kind). <p>Activity 3: International or local consultants to design, adapt, and install the remote monitoring system, including software, manuals, and training for personnel:</p> <ul style="list-style-type: none"> 120 consultant-days (US\$80,000) 160 consultant-days worth of resources + contribution by FECRECOOP of an early warning system (US\$206,000 in kind) 		<ul style="list-style-type: none">
<p>Component III: Statistics and information system</p> <ul style="list-style-type: none"> Activity 1: Hire consulting services to work jointly with INE to: (i) design an information system for building a database on the cooperative sector; (ii) design the specialized database; (iii) design the data collection methodology that will allow the initial database to be updated; (iv) deliver the software for database management; (v) prepare and deliver the corresponding manuals; and (vi) train DECOOP personnel in the use of the database and the data collection methodology. Activity 2: Hire consulting services for (i) collecting the pertinent information and integrating it with the other information compiled by DECOOP with the rest of its system. 	<p>Activity 1: Technical consulting services in statistics to design the information system, the specialized database, the data collection methodology, and personnel training:</p> <ul style="list-style-type: none"> 100 consultant-days (US\$70,000) 30 consultant-days worth of resources from INE, to include training of DECOOP personnel, plus the value of the know-how and software (US\$200,000). <p>Activity 2: Technical consulting services in statistics for inputting the information resulting from activity 1 and integrating it with the information from the rest of DECOOP: 30 (US\$10,000).</p> <p>Activity 3: Allow timely access to the database through the DECOOP website.</p>	<ul style="list-style-type: none"> Consultant progress reports Training plan that includes methodology, issues, and supporting materials 	<ul style="list-style-type: none"> Advisory services meeting all the requirements are hired on a timely basis. INE cooperates with DECOOP, and transferring know-how on a timely basis. Consultants with the required qualifications are found and willing to accept the terms of reference.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<ul style="list-style-type: none"> • Activity 3: Disseminate general information deemed relevant. 			
<p>Component IV: Training and dissemination</p> <ul style="list-style-type: none"> • Activity 1: Hire consulting services to provide: (a) direct training to interested cooperatives through courses, workshops, and seminars on: (i) the new rules and regulations; (ii) the oversight model, and (iii) business management, governance, and financial discipline techniques; and (b) training for public sector bodies interested in or with ties to the cooperative sector. • Activity 2: Carry out promotional activities to persuade academic bodies (institutes and universities) to conduct cooperative training programs on project-related topics. • Activity 3: Hire consulting services to produce and promote educational material on cooperatives by preparing: (i) a basic online course, and (ii) a distance training system. • Activity 4: Organize international internships for DECOOP personnel. 	<p>Activity 1: Consulting firm providing the following courses:</p> <ul style="list-style-type: none"> • Courses for large and medium-sized CUs –on 6 topics for 3 groups of the 30 CUs -. \$2,300/course (US\$41,400). • Courses for small CUs- on 6 topics for 4 groups of 50 CUs- \$2,300/course (US\$55,200). • Courses for new projects for 6 CUs, plus productive cooperatives that also engage in intermediation – on 8 topics, including sales. US\$2,330/course (US\$112,000). • Courses for cooperatives, by sector (1 per 13 sectors with 6 modules, \$2,300/course) (US\$179,400). <p>Activity 2: Specific consulting services to design two competitions (universities and institutes) for the best cooperative training program (US\$2,000).</p> <p>Activity 3: Technical consulting services for the development and promotion of teaching materials for trainers and instructors, and online and distance education/training (US\$5,000).</p> <p>Activity 4: _3_ internships abroad for DECOOP staff (US\$15,000).</p>	<ul style="list-style-type: none"> • Training plans and programs and material requested • Competition rules • Training programs for the online and distance courses. • List of countries to be visited, programs to be carried out in each country, and the number of DECOOP employees who will take part in them. 	<ul style="list-style-type: none"> • The cooperatives and interested government agencies take part in the training sessions. • The universities and institutes have a commercial interest in training cooperatives. • The countries and institutions selected express interest in receiving DECOOP personnel at the appropriate time.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Component V: Strengthening of DECOOP</p> <ul style="list-style-type: none"> • Activity 1: Hire local or international consulting services to: <ul style="list-style-type: none"> - Define the new organizational structure (including the staffing required), establish profiles for the staff required, and the areas or activities in which they need to be trained. - Recruit the staff required under the new organizational structure. • Activity 2: Effectively recruit the new professional or technical staff identified under activity 1 above. • Activity 3: Hire consulting services in information technology to: <ul style="list-style-type: none"> - Assess the current technology (hardware, software, communications); - Identify, on the basis of the reports of the other components, the new technological architecture required and, in addition, prepare a detailed schedule for implementing it; and - Organize, on a turnkey basis, the procurement, installation, and maintenance of the basic hardware and software needed for DECOOP to operate. • Activity 4: Hire consulting services to locate and adapt the premises to be leased, establish an office plan, and determine what office furniture and other equipment is needed. 	<p>Activity 1: Hire consulting services to design the organizational structure, define the profiles and staffing required, and recruit new staff: 45 days (US\$15,000).</p> <p>Activity 2: Hire 10 additional professionals (US\$646,500)</p> <p>Activity 3: Hire technical consulting services in information technology to design the technological architecture, purchase the hardware and other items, and deliver an operational system: 45 days (US\$165,000).</p> <p>Activity 4: Hire consulting services to select the premises and design an office plan: 45 days (US\$15,000).</p> <p>Activity 5: Lease and refurbish the premises in the amount of US\$202,000.</p> <p>Activity 6: Hire consulting services to monitor and evaluate the implementation process for the project as a whole: 90 days. (US\$30,000).</p>	<ul style="list-style-type: none"> • Consultant progress reports • Information on candidates, records of the exams and interviews, and results • Report on the design of the technological architecture and on the hardware and other items needed for its operation • Price quotations for purchase and installation (technology, furniture, and other office equipment or supplies) and the respective reports on the decision reached or purchase orders • Reports on the various leasing options, with their respective evaluations by the consultant • Report on the office plan for the premises selected and on the furniture needed for operation 	<ul style="list-style-type: none"> • Consultants with the required qualifications are found and willing to accept the terms of reference. • Suppliers provide quotations and deliver the products on time and in accordance with the specifications. • Appropriate leasing options are found for the new structure. • The Office of the Undersecretary of the Economy makes timely decisions with respect to staff selection and recruitment and procurement and leasing of the necessary office space and furnishings.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<ul style="list-style-type: none"> • Activity 5: Lease and refurbish the new premises. • Activity 6: Hire consulting services to monitor and evaluate the implementation process for the whole project and to report back to DECOOP and the Bank's Country Office. 			

MIF
STRENGTHENING REGULATION AND OVERSIGHT OF COOPERATIVES IN CHILE (TC-02-05-03-7-CH)
Budget for program components and activities (in US\$)

ACTIVITIES	Time	Unit Cost	No.	Counterpart (cash)	Counterpart (kind)	MIF	TOTAL
Component I: Modernization of the regulatory framework							
Regulatory and oversight framework							
Changes in the regulatory environment and legal framework, and legal training (consulting services)	4 months	500		9,000		60,000	69,000
Technical consulting services and training (consulting services)	8 months	500		6,000		40,000	46,000
Consultant for regulatory issues (month)	24	2,420				58,080	58,080
Subtotal, Component I				15,000	0	158,080	173,080
Component II: Monitoring and oversight systems							
Oversight model (consulting services)							
Overall design of model and coordination with specific consulting services	105 days	500		23,000		29,000	52,000
Diagnostic assessment of current oversight model and the cooperative sector	45 days	300		4,000		9,500	13,500
Design of the off-site oversight model + manuals + training	46 days	450		5,000	4,000	12,000	21,000
Design of the on-site oversight model + manuals + training	46 days	450		5,000	4,000	12,000	21,000
Design of the supporting oversight model + manuals + training	31 days	450		3,000	4,000	7,000	14,000
Establish and implement an information clearinghouse (consulting services)							
Consulting services + software + operating manual + training	120 days				250,000	156,000	406,000
Establish and implement a remote monitoring system (consulting services)							
Consulting services + software + operating manual + training	90 days				206,000	80,000	286,000
Subtotal, Component II				40,000	468,000	305,500	813,500
Component III: Establishment of the statistics and information system							
Design of an information system and database	130 days				200,000	70,000	270,000
Design of the information system							
Design of the database							0
Design of the data collection methodology							0
Software for data processing							0
Manuals							0
Training							0
Collection and inputting of information in the database	30 days					10,000	10,000
Dissemination and information, incl. newsletters, etc.							0
Subtotal, Component III				0	200,000	80,000	280,000
Component IV: Training and dissemination							
Training for cooperatives (consulting services)							
Courses for large and medium-sized CUs - 6 topics * 3 groups of cooperatives and 3 persons per cooperative	12 hours/course	100	30	8,280		33,120	41,400
Courses for micro and small CUs - 6 topics	12 hours/course	100	50	11,040		44,160	55,200
Courses for new CU projects and production vooperatives carrying out financial intermediation	12 hours/course	100	6	18,400		93,600	112,000
Courses for sector cooperatives and government agencies (1 per 13 sectors, 6 modules)	12 hours/course	100		35,880		143,520	179,400
Design of competitive exams for cooperative training programs (consulting services)				400		1,600	2,000
Manuals and programs for trainers and online and distance training (consulting services)				1,000		4,000	5,000
Internships for DECOOP staff					15,000	0	15,000
Subtotal, Component IV				75,000	15,000	320,000	410,000
Component V: Strengthening of DECOOP							
New organizational structure and staff recruitment (consulting services)	45 man-days					15,000	15,000
Diagnostic assessment of technology needs (consulting services)	45 man-days					15,000	15,000
Procurement and installation of appropriate basic technology and software				60,000		90,000	150,000
Hiring of new professional staff				646,500			646,500
Quality control (consulting services)	90 man-days					30,000	30,000
Identification and selection of premises and design of office plan (consulting services)	45 man-days					15,000	15,000
Procurement of furniture and office equipment				15,000			15,000
Physical facilities (adaptation and lease)	3 years			187,000			187,000
Subtotal, Component V				908,500	0	165,000	1,073,500
TOTAL, COMPONENTS I to V				1,038,500	683,000	1,028,580	2,750,080
Project coordination and administration				20,000	17,500	30,000	67,500
Contingencies						47,420	47,420
Evaluations						30,000	30,000
GRAND TOTAL FOR PROJECT				1,058,500	700,500	1,136,000	2,895,000

CHILE
PROGRAM TO STRENGTHEN REGULATION AND OVERSIGHT OF COOPERATIVES IN CHILE (TC-02-05-03-7-CH)

A. Similar or related MIF projects

Project number/approval date	Project title, sector, executing agency and amount	Date of signature and original disbursement period in months	Percentage disbursed	Comments: satisfactory execution or problems in execution, including delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-7830-CH 3 April 2002	Strengthening of credit unions US\$660,000	Was not signed.	0%	Canceled: Executing agency did not fulfill conditions for project eligibility.

B. Similar or related Bank projects: none

C. Projects in related sectors or with related beneficiaries

Project number/approval date	Project title, sector, executing agency and amount	Date of signature and original disbursement period in months	Percentage disbursed	Comments: satisfactory execution or problems in execution, including delays, extensions, reformulation, change in executing agency, etc.
ATN/MT-6279-CO 7/Dec/98	Strengthening of the credit union system in Colombia Superintendency of Cooperative Associations US\$1,415,000	24/Mar/99 42 months	100%	The project was satisfactorily completed but its execution was slow. The program helped give various Colombian authorities greater control over enforcement of current regulations governing cooperatives, establish synergies with the main association of cooperatives (CONFECOOP), and restore trust in the sector.
ATN- ATN/MT-5878-EC 25/Feb/98	Strengthening of the legal, regulatory, and supervisory framework for the credit union system Superintendency of Banks (SB) US\$706,000	25/Feb/98 42 months	55%	Positive prospects for execution (outputs and outcomes) but with slow execution.

Project number/approval date	Project title, sector, executing agency and amount	Date of signature and original disbursement period in months	Percentage disbursed	Comments: satisfactory execution or problems in execution, including delays, extensions, reformulation, change in executing agency, etc.
ATN/ME-6212-BH 30/Oct/98	Institutional strengthening of savings cooperatives Bahamas Cooperative League US\$660,000	12/Feb/98 42 months	48%	Positive prospects for execution (outputs and outcomes) but with slow execution.
ATN/ME-4763-JA 14/Dec/94	Strengthening of financial services and remittances Credit Union League US\$1.9 million	21/Feb/95 42 months	90%	The operation was completed with positive results, but execution was slow.
ATN/ME-5054-TT 01/Nov/95	Institutional strengthening of credit union system Union League of Trinidad US\$945,610	17/Jun/96 42 months	91%	Although there have been significant delays, project execution has been satisfactory.